March 31, 2023
Economic Update

Financial Market Update

The first three months of 2023 saw positive returns across all asset classes, continuing momentum from the 4th quarter of 2022. Markets initially rallied in January before giving back some gains in February. Troubles in the banking sector led to a selloff in March before stabilizing and rallying into the end of the month. International and US Equities led all asset classes for the quarter, and Fixed Income also posted strong results.

Uncertainty remains elevated for both the economy and markets. Recent turmoil in the banking sector has increased the odds for a recession at some point in 2023. Last year saw significant repricing in the Equity markets, however, it is likely we will see continued volatility before a more sustained recovery is achieved, particularly as earning season for the 1st quarter unfolds. This has, and remains, a positive environment for Fixed Income assets given lower valuations and strong yields

Asset Class	Q1 2023
Developed International	8.5%
US Large Cap	7.5%
Emerging Markets	4.0%
US Mid Cap	3.8%
Infrastructure	3.7%
US Core Bonds	3.0%
US Small Cap	2.6%
Multisector Bonds	2.4%
Real Estate	2.4%
Equity Alternatives	0.0%

An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly

Interest Rates, Inflation and Banks

The Federal Reserve decreased the size of their rate hikes to 0.25% at their January and March meetings. The current range of the Federal Funds Rate is 4.75% to 5.00%. The market is expecting one additional hike in May but also rate cuts before year-end. Future moves in rates will be dependent on continued moderation of inflation and any economic fallout from the turmoil in the banking sector.

Inflation has tempered thus far in 2023. The most recent reading for March saw year-over-year prices (as measured by the Consumer Price Index) slow to 5.0%. Rents have proven particularly sticky, however, it is expected that this will improve as we get further into 2023, helping reduce the overall pace of price increase.

Turmoil in the banking sector came to light in March. Silicon Valley Bank and Signature Bank in the US experienced a run on deposits leading the Fed, US Treasury, and Federal Deposit Insurance Company to close both institutions and issue broader support for depositors and the banking sector. Abroad, years of instability at Credit Suisse led to its forced sale to fellow-Swiss bank UBS. Each of these three institutions had unique factors, coupled with the rapid rise in interest rates, that led to their demise. Policy actions have led to a calming of fears in the banking sector, although this could slow lending activity.

Employment

The job market, although still showing strong gains, has seen the pace of hiring slow. After a blowout jobs report of 472,000 in January, February saw 326,000 new jobs added, and March 236,000, while the unemployment rate ticked up to 3.5%. Importantly, wage growth has cooled in recent months which is a positive for the fight against inflation.

US Economy

US GDP growth increased at an annual rate of 2.6% in the 4th quarter after a pace of 3.2% in the 3rd quarter. Growth expanded in the 2nd half of the year after a weak start to the year. It is expected that growth will weaken at some point during 2023 as tightening by both the Federal Reserve and banking sector could lead to an economic slowdown.

In Focus For 2023

This remains a highly uncertain environment, both for the economy and markets. The Federal Reserve appears to be nearing the end of its tightening cycle which has historically heralded a strong period of returns for markets. That being said, volatility is expected to persist in the near term as the markets digest (1) slowing economic growth, (2) fallout from the recent banking turmoil, (3) whether inflationary pressures show continued improvement and (4) debt ceiling discussions.